

Message Text

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ACTION AF-07

INFO OCT-01 EUR-12 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

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R 301338Z DEC 74

FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC 2485

INFO AMCONSUL ASMARA

AMEMBASSY NAIROBI

AMEMBASSY MOGADISCIO

AMEMBASSY KHARTOUM

AMEMBASSY LONDON

AMEMBASSY PARIS

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E.O.11652: N/A

TAGS: EGEN ET

SUBJ: ETHIOPIAN ECONOMIC SITUATION

REF: ADDIS 11826

1. BEGIN SUMMARY.

A. AT YEAR END THE ETHIOPIAN ECONOMIC PICTURE APPEARS BRIGHTER THAN IT HAS FOR SOME TIME, EXCEPT FOR NEW INVESTMENT IN THE PRIVATE SECTOR. THE OUTLOOK FOR AGRICULTURAL PRODUCTION, BOTH EXPORT CROPS AND THOSE RAISED FOR DOMESTIC CONSUMPTION, IS SUBSTANTIALLY BETTER THAN LAST YEAR. MANUFACTURING AND CONSTRUCTION ACTIVITIES HAVE IMPROVED DURING THE LAST THREE MONTHS WHICH HAS, IN TURN, INCREASED EMPLOYMENT. THE GOE EXPECTS EMPLOYMENT TO PICK UP EVEN MORE AS ITS NEW PUBLIC

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WORKS PROJECTS GET UNDER WAY IN THE NEXT MONTH OR TWO. LABOR-

MANAGEMENT DISPUTES ARE DECREASING, THOSE WHICH REMAIN ARE BEING HANDLED EFFICIENTLY BY THE GOE, AND LABOR DISCIPLINE IN GENERAL IS IMPROVING. RETAIL TRADE TURNOVER WILL BE ABOUT THE SAME AS LAST YEAR IN VALUE TERMS, BUT OWING TO RISING PRICES VOLUME WILL BE DOWN. INFLATION IN URBAN AREAS HAS BEEN MODEST WITH THE GOE RETAIL PRICE INDEX UP ONLY 3 PERCENT SINCE THE FIRST OF THE YEAR (JANUARY 1974). BANKING ACTIVITY IS UP SHARPLY OWING TO A SURGE IN IMPORT FINANCING AS RETAILERS REPLENISH THEIR INVENTORIES. EXPORT FINANCING IS ALSO INCREASING SEASONALLY. INVESTMENT IN THE PRIVATE SECTOR CONTINUES TO BE STAGNANT AND WILL REMAIN IN LIMBO UNTIL A DEFINITIVE ECONOMIC POLICY STATEMENT INTERPRETATION ON "ETHIOPIAN SOCIALISM" IS FORTHCOMING FROM THE GOE. THE EXTERNAL SECTOR CONTINUES ITS STRONG PERFORMANCE. BANKING SOURCES EXPECT A TRADE SURPLUS THIS CALENDAR YEAR OF AROUND ETH\$100 MILLION AND FOREIGN EXCHANGE RESERVES OF ROUGHLY ETH\$700 MILLION AS OF DECEMBER 31, 1974.

B. WHILE MATERIAL FOR THIS REPORT WAS BEING COLLECTED, THE GOE ANNOUNCED ITS "ETHIOPIA SOCIALISM" PHILOSOPHY. WHAT THIS PHILOSOPHY MEANS VIS-A-VIS THE PRIVATE SECTOR IS STILL UNCLEAR. THIS ANNOUNCEMENT HAS OBVIOUSLY INCREASED THE CAUTION AND CONCERN OF PRIVATE BUSINESSMEN, BOTH EXPATRIATE AND ETHIOPIAN; THE EMBASSY DOES NOT EXPECT ANY SERIOUS OVERALL DETERIORATION IN THE ECONOMY IN THE SHORT RUN, HOWEVER, UNLESS THE GOE PURSUES AN ALL-OUT NATIONALIZATION PROGRAM. END SUMMARY.

2. AGRICULTURE

A. AS ETHIOPIA MOVES INTO ITS HARVESTING SEASON AGRICULTURAL PRODUCTION, ESPECIALLY EXPORT CROPS, LOOKS VERY GOOD. THE COFFEE BOARD ESTIMATES AN 80,000 TON EXPORTABLE SURPLUS, UP SUBSTANTIALLY FROM LAST YEAR'S LEVEL OF AROUND 60,000 TONS. PULSES WILL PROBABLY BE CLOSE TO OR EXCEED SLIGHTLY LAST YEAR'S RECORD LEVELS WITH HARICOT BEANS LEADING THE WAY WITH 60,000 PLUS TONS (OF HARICOT BEANS) AVAILABLE FOR EXPORT. SESAME SEED PRODUCTION (THE ONLY MAJOR OIL SEED WHICH THE GOE ALLOWS TO BE EXPORTED) IS ALSO STEADY AT ROUGHLY 50,000 TONS FOR EXPORT. COTTON, FOR THE FIRST TIME, WILL BE EXPORTED, PARTLY BECAUSE THE LOCAL MILLS PURCHASED HEAVILY FROM LAST YEAR'S PRODUCTION; CURRENT ESTIMATES OF COTTON AVAILABLE FOR EXPORT ARE PUT AT 40,000 TO 45,000 TONS.

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B. PRODUCTION OF DOMESTICALLY CONSUMED AGRICULTURAL CROPS IS ALSO REPORTED TO BE SUBSTANTIALLY BETTER THAN LAST YEAR. SUGAR PRODUCTION PROSPECTS LOOK VERY GOOD, ASSUMING NO LABOR PROBLEMS SIMILAR TO THOSE EXPERIENCED LAST YEAR ARISE, AND OIL SEEDS WILL BE IN AMPLE SUPPLY. THE FOOD GRAIN SITUATION IS MUCH BETTER AND MAY EVEN MEET DOMESTIC CONSUMPTION REQUIREMENTS. WHILE THE US MISSION HAS ESTIMATED THAT AROUND 80,000 TONS OF FOOD GRAINS MAY HAVE TO BE IMPORTED TO MEET CONSUMPTION

REQUIREMENTS, ESPECIALLY FOR THOSE INDIVIDUALS WHO HAVE LITTLE OR NO EFFECTIVE PURCHASING POWER, THIS ESTIMATE MAY PROVE TO BE ON THE HIGH SIDE. IN THIS CONNECTION IT SHOULD BE REMEMBERED THAT ETHIOPIA GENERALLY PRODUCES AROUND 4.3 MILLION TONS OF FOOD GRAINS OF WHICH ROUGHLY 1.2 MILLION ARE TRADED IN THE DOMESTIC MARKET. IN ANY CASE THE SITUATION IS A SUBSTANTIAL IMPROVEMENT OVER LAST CROP YEAR WHEN APPROXIMATELY 125,000 TONS OF FOOD GRAINS HAD TO BE IMPORTED, IN LARGE PART TO COVER THE DOMESTIC PRODUCTION DEFICIT. THE OUTLOOK DESCRIBED IN A AND B ABOVE ASSUMES THAT DELIBERATE POLITICALLY MOTIVATED, LARGE SCALE CROP DESTRUCTION WILL BE AVOIDED.

3. MANUFACTURING, CONSTRUCTION AND EMPLOYMENT

A. MANUFACTURING OUTPUT CONTINUES AT PREVIOUS LEVELS OR HAS INCREASED SOMEWHAT COMPARED TO EARLIER IN CY 1974. PRODUCTION OF TEXTILES, BEVERAGES AND PROCESSED FOOD HAS STRENGTHENED MODESTLY. THE CONSTRUCTION INDUSTRY IS ALSO BEGINNING TO RECOVER FROM THE SUMMER (RAINY SEASON) DOLDRUMS AND IS APPROACHING NORMAL. IN ADDITION, ACCORDING TO THE GOE, A NUMBER OF MAJOR GOVERNMENT SPONSORED CONSTRUCTION PROJECTS BOTH IN ADDIS AND THE COUNTRYSIDE WILL BE STARTING UP IN A MONTH OR TWO.

B. THE EMPLOYMENT PICTURE HAS, OF COURSE, IMPROVED WITH THE RECOVERY IN THE CONSTRUCTION SECTOR, ESPECIALLY FOR SKILLED LABORERS. THE EMPLOYMENT OFFICE OF THE GOE REPORTS SOME 2,000 SKILLED LABORERS STILL REGISTERED AS UNEMPLOYED BUT EXPECTS THAT THEY WILL BE PLACED IN JOBS IN THE NEAR FUTURE. AROUND 4,000 TO 5,000 UNSKILLED LABORERS ARE REGISTERED AS UNEMPLOYED, BUT THIS IS PROBABLY ONLY 20 PERCENT OR SO OF TOTAL UNEMPLOYMENT FOR THIS GROUP. THE GOE HOPES TO ABSORB MOST OF THESE LABORERS IN ITS PUBLIC WORKS PROJECTS MENTIONED ABOVE. SINCE MEMBERS OF THIS GROUP ARE FROM ALL OVER ETHIOPIA, THEY ARE WILLING TO GO TO WHERE EMPLOYMENT IS AVAILABLE.

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INFO OCT-01 EUR-12 ISO-00 NEA-06 PA-01 PRS-01 USIA-06

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C. ACCORDING TO OFFICIALS WITH THE ETHIOPIAN FEDERATION OF EMPLOYERS, LABOR PROBLEMS HAVE DECREASED DURING PAST WEEKS AND WORKER DISCIPLINE HAS IMPROVED. THE MILITARY GOVERNMENT HAS TAKEN FORCEFUL MEASURES TO SETTLE LABOR DISPUTES AND NOW THAT A REPRESENTATIVE OF THE PMAC IS WORKING IN THE MINISTRY OF COMMUNITY DEVELOPMENT, THE MINISTRY RESPONSIBLE FOR HANDLING LABOR-MANAGEMENT DISAGREEMENTS, DECISIONS ON DISPUTES ARE BEING REACHED MORE EXPEDITIOUSLY THAN BEFORE.

4. RETAIL TRADE AND INFLATION

A. COMPARED TO LAST YEAR, RETAIL TRADE TURNOVER FOR THIS YEAR IS EXPECTED TO BE ABOUT THE SAME IN VALUE TERMS. OWING TO HIGHER IMPORT PRICES (WHICH MAKE UP A SUBSTANTIAL PROPORTION OF URBAN RETAIL TRADE), HOWEVER, VOLUME WILL BE DOWN. BUSINESSMEN HAVE BEGUN TO REPLENISH THEIR INVENTORIES WHICH

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WERE GETTING VERY LOW. ASIDE FROM DEALERS WHOSE PASSENGER CARS HAVE BEEN EXEMPTED FROM THE BAN ON IMPORTATION OF VEHICLES OVER 1300 CC, SALES OF PASSENGER CARS CONTINUE TO DECLINE, A TREND WHICH IS EXPECTED TO CONTINUE INTO THE FIRST PART OF 1975.

B. RETAIL PRICES CONTINUE TO RISE FOR IMPORTED ITEMS AND DOMESTICALLY PRODUCED GOODS WITH A HIGH IMPORT CONTENT. ON THE OTHER HAND, PRICES FOR FOOD GRAINS ARE DECLINING SEASONALLY AND ARE CURRENTLY AT THE SAME LEVEL AS JANUARY, 1974. OVERALL THE RETAIL PRICE INDEX HAS INCREASED ROUGHLY 3

PERCENT FROM JANUARY 1974 TO NOVEMBER 31, 1974 AND ABOUT
9 PERCENT FROM NOVEMBER 31, 1973 TO NOVEMBER 31, 1974.

5. BANKING AND INVESTMENT

A. BANKING ACTIVITY HAS PICKED UP DRAMATICALLY OVER THE PAST THREE MONTHS MAINLY DUE TO A MAJOR INCREASE IN IMPORT FINANCING (INVENTORY REPLENISHMENT, FERTILIZER, PETROLEUM), A SEASONAL INCREASE IN EXPORT FINANCING AND A CONTINUED STRONG DEMAND FOR WORKING CAPITAL IN THE MANUFACTURING SECTOR. THE LOAN TO DEPOSIT RATIO WHICH AVERAGED AROUND 73 PERCENT THROUGH THE FIRST EIGHT MONTHS OF 1974 HAS RISEN TO 89 PERCENT IN MID-DECEMBER. IN FACT, COMMERCIAL BANKING SOURCES ARE CURRENTLY EXPRESSING SOME CONCERN THAT BANKS MAY FACE LIQUIDITY PROBLEMS AS EARLY AS MARCH 1975 OWING TO INCREASED CREDIT DEMAND.

B. NOT SURPRISINGLY, PRIVATE INVESTMENT CONTINUES TO LANGUISH. NO MAJOR NEW PROJECTS HAVE STARTED AND ONLY THOSE WELL UNDER WAY, SUCH AS THE EXPANSION OF HVA METEHARA SUGAR MILL, ARE CONTINUING. UNTIL THE MEANING OF ETHIOPIAN SOCIALISM IS CLEARLY EXPLAINED THE LIKELIHOOD OF NEW PRIVATE INVESTMENT ACTIVITY IS CLOSE TO ZERO. WITH REGARD TO THE PUBLIC SECTOR, THE GOE HAS ANNOUNCED SEVERAL NEW PROJECTS AND, ACCORDING TO THE MINISTER OF FINANCE, MORE ARE ON THE WAY. THE QUESTION IS HOW SOON THEY CAN BE IMPLEMENTED.

6. EXTERNAL SECTOR

ACCORDING TO BANKING SOURCES, ETHIOPIA'S FOREIGN EXCHANGE HOLDINGS NOW STAND AT ABOUT ETH\$650 MILLION. THE COMMERCIAL BANK'S HOLDINGS HAVE DROPPED FROM ABOUT ETH\$180 MILLION EARLIER IN NOVEMBER TO A CURRENT LEVEL OF ETH\$120 MILLION OWING TO THE SHARP INCREASE IN IMPORT ACTIVITY AND THE DECREASED ATTRACTIVENESS TO THE COMMERCIAL BANK OF HOLDING FOREIGN LIMITED OFFICIAL USE

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EXCHANGE ASSETS ABROAD (DECLINING INTEREST RATES ON FX DEPOSITS). EXPORTS, AS IS TRADITIONAL DURING THIS SEASON, ARE INCREASING AND BY THE END OF DECEMBER TOTAL FOREIGN EXCHANGE HOLDINGS WILL PROBABLY BE AROUND ETH\$700 MILLION. ETHIOPIA'S TRADE BALANCE FOR THIS YEAR WILL PROBABLY BE IN SURPLUS BUT AT LEVELS SOMEWHAT BELOW THE FIRST FIVE MONTHS OF CY 1974, I.E., APPROXIMATELY ETH\$100 MILLION.

7. COMMENT

MATERIAL FOR THIS REPORT WAS COLLECTED JUST BEFORE AND JUST AFTER THE PMAC ANNOUNCED ITS "ETHIOPIAN SOCIALISM" PHILOSOPHY. THUS FAR THE PRIVATE SECTOR AND OUTSIDE OBSERVERS ARE IN THE DARK AS TO THE IMPLICATIONS OF THIS PHILOSOPHY FOR THE PRIVATE SECTOR. PROBABLY THE AUTHORS THEMSELVES ARE SOMEWHAT UNCERTAIN REGARDING ITS APPLICATION TO THE ETHIOPIAN ECONOMY. OBVIOUSLY EVERYONE IS BEING MORE CAUTIOUS UNTIL THE SITUATION CLARIFIES,

AND WHILE THE MAJOR SECTORS OF THE ECONOMY WILL CONTINUE TO FUNCTION DURING THE PERIOD OF UNCERTAINTY, BUSINESSMEN WILL DO ALL THEY CAN TO REDUCE THEIR FINANCIAL RISKS, ESPECIALLY IN THE AREA OF NEW INVESTMENT. THE DETRIMENTAL EFFECT THIS WILL HAVE ON THE ECONOMY OVER THE LONGER RUN SHOULD BE APPARENT TO THE GOE AND ENCOURAGE IT TO PROMULGATE A GENERAL ECONOMIC POLICY STATEMENT IN THE NEAR FUTURE. THE PRIMITIVE NATURE OF THE ETHIOPIAN ECONOMY SHOULD NOT BE FORGOTTEN, HOWEVER, AND THE RELATIVE INSENSITIVITY OF MOST ECONOMIC ACTIVITY TO POLITICAL INSTABILITY (AND ACTIONS SHORT OF OUTRIGHT NATIONALIZATION OF ALL PRIVATE SECTOR ACTIVITIES) MAKE IT LIKELY THAT THE ETHIOPIAN ECONOMY WILL NOT SIGNIFICANTLY DETERIORATE EVEN IF THE CURRENT STATE OF CONFUSION AND UNCERTAINTY PERSISTS FOR SOME TIME INTO THE FUTURE. DECLASSIFY UPON RECEIPT.

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